

Statement on Health Care Reform

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COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

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LEADERSHIP FOR AMERICA

The signatories to this memo are all members of the "Fiscal Seminar," a group of budget experts that has been meeting together for several years. The views expressed are those of the individuals involved and should not be interpreted as representing the views of their respective institutions. For purposes of identification, the affiliation of each signatory is listed.

We are a politically diverse group of veteran budget and policy analysts. Our mission is to raise public awareness of America's fiscal predicament, which threatens to undermine our country's economic strength and independence, and to propose constructive remedies.

Despite our different political leanings, we are united by the conviction that slowing the growth rate of U.S. health-care costs is essential to defusing the nation's fiscal crisis. That's because escalating medical costs, together with the aging of our population and gains in longevity, are fueling the unsustainable growth of our big entitlement programs: Medicare, Medicaid and Social Security.

No one has made this argument more convincingly than President Obama. "So to say it as plainly as I can, health care is the single most important thing we can do for America's long-term fiscal health," he told the American Medical Association in June. The President added:

And if we fail to act, federal spending on Medicaid and Medicare will grow over the coming decades by an amount almost equal to the amount our government currently spends on our nation's defense. It will, in fact, eventually grow larger than what our government spends on anything else today. It's a scenario that will swamp our federal and state budgets, and impose a vicious choice of either unprecedented tax hikes, or overwhelming deficits, or drastic cuts in our federal and state budgets.

We agree with the President that health care reform must expand coverage in a fiscally responsible way. We applaud as well his insistence that health-care legislation not only must be fully paid for, but must also include effective steps to "bend down the curve" of health care cost growth over time.

The bill now being considered by the Senate comes closest to meeting these conditions. According to the Congressional Budget Office, the Senate bill goes beyond deficit neutrality. It would reduce the federal deficit by \$130 billion in the next decade but by only one-quarter of 1 percent of GDP over the following decade. These conclusions, however, rest on large projected cuts in Medicare provider payments. If Congress decides to scale back those cuts, as it has done before, the net effect will be to expand the federal deficit, even if health reform is scored as deficit-neutral.

The Senate bill's cost containment features include an excise tax on high-cost insurance plans, a Medicare Commission charged with weeding out ineffective and inefficient care, and pilot projects designed to test incentives for providing high quality care, rather than a higher volume of services. These measures point in a promising direction. But we can do better. At a time of exploding deficits and debt, we owe it to our children to reform health care in ways that strengthen, not weaken, America's long-term budget outlook.

Therefore, we urge President Obama and Senate leaders to work together to build even stronger cost containment provisions into the Senate bill. While members of our group

differ on the best prescriptions for lowering costs, we agree that a credible menu of options should include the following:

- More thorough reform of the open-ended tax treatment of employer-sponsored health plans. This subsidy creates strong incentives for higher health care spending, and perversely bestows its largest benefits on high earners with the costliest health plans. To really bend the cost curve, Congress must go beyond half-measures intended simply to raise revenue. Instead it should sharply limit the tax exemption or shift it toward a uniform credit.
- A stronger Medicare Commission that delivers both structural reform and immediate savings. Medicare's costs have risen steadily even though its payment rates are well below those of private insurers. Congress should empower the Commission to examine all aspects of Medicare – including its dominant, fee-for-service design – not just prices and payments. And it should take up on an expedited basis the Commission's recommendations for savings that would be used both to defray part of the cost of expanding health coverage and to reduce the program's long-term liabilities.
- Powerful incentives to promote more efficient and cost-effective practices. Health reform should encourage public and private insurers to replace fee-for-service payment systems with innovative methods – including performance-based payments, bundled payments, and capitated payments – that promote more efficient use of resources. In addition, new approaches to health care delivery, such as accountable care organizations, should be developed as a way of improving the efficiency and quality of care provided to patients. Research into the comparative effectiveness of treatments also could help link payment systems to performance. Health IT bonuses for “meaningful use” should be linked to achieving better results as part of systems of quality measurement, quality improvement and care coordination.
- A federal health care budget. We believe substantive reforms in America's big health programs are more likely to happen if they are buttressed by changes in the federal budget process. Last year, [our group proposed that Congress establish an explicit budget for health care programs, and entitlements in general](#). Like budget caps and PAYGO rules, a health budget would be an action-forcing mechanism for moving toward serious, structural reforms of the nation's entitlement programs.
- Medical malpractice reform. None of the bills in Congress confronts the urgent need for a more reliable and less costly system of medical justice. Yet CBO recently estimated that enacting a “typical” package of tort reform proposals would reduce U.S. health care spending by roughly \$54 billion over 10 years.

Health care reform and fiscal responsibility must go hand-in-hand. If we fail to get America's fiscal house in order, more of our nation's wealth will be siphoned off to service a crushing national debt. Automatic entitlement spending, which accounts for nearly half of federal spending, will eventually absorb nearly every dollar in taxes the

government raises and crowd out spending on other pressing needs. Further, we will have to borrow even more from foreign lenders to make up the difference between what we consume and what we produce. This abject fiscal dependence erodes our sovereignty by giving other countries too much leverage over U.S. economic policy.

Health care reform, of course, is not the only step necessary to keep America's debts from mushrooming out of control. We must also get to work on rebalancing the big entitlement programs to reflect both the aging of America and lengthening life spans. Overhauling our archaic tax system will be essential, as well.

But health care reform is the issue before us today, and slowing the pace of rising costs, while expanding coverage, must be an urgent priority.